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# KATONAH LEWISBORO SCHOOL DISTRICT

## BUDGET, FINANCIAL ACCOUNTING & REPORTING AND CASH INTERNAL AUDIT

## Internal Audit Report

## September 2021

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**Date:** September 29, 2021

**To:** Ms. Marjorie Schiff, Board President

**From:** Sharon Eason, Manager
William Croft, Director of Education Practice

**cc:** Audit Committee
Andrew Selesnick, Superintendent of Schools
Danelle Placella, Assistant Superintendent for Business

**Subject:** Budget, Financial Accounting & Reporting and Cash Internal Audit

**Background**

We have applied certain financial, compliance and operational audit procedures to the Budget, Financial Accounting & Reporting functions over the Katonah Lewisboro School District (the "District") as of June 30, 2021. As a result of our most recent Risk Assessment Report, Internal Audit recommended this area for an in-depth review to determine ways to improve procedures and establish increased accountability and stronger internal controls.

**Audit Scope**

Our responsibility was to assess the adequacy and effectiveness of internal controls over Budget, Financial Accounting & Reporting operations in the District. We reviewed the period from July 1, 2020, through June 30, 2021. A detailed description of audit work performed is presented in the "Summary of Audit Procedures Performed" section of this report. These audit procedures performed are in accordance with *The International Standards for the Professional Practice of Internal Auditing* promulgated by the Institute of Internal Auditors.

**Executive Summary**

As a result of the work performed, observations were made that resulted in recommendations designed to improve internal controls and enhance operating policies and procedures:

1. The District should continue their processes and controls for budget.
2. The District should continue its processes and controls for financial accounting & reporting and cash related functions including the recommendations listed.

Based on the results of the procedures performed, the internal control structure is rated as "***Satisfactory***." with the following recommendations. The internal audit rating structure is defined below:

| | |
|---|---|
| ***Satisfactory*** | Indicates an acceptable system of internal control and satisfactory compliance with applicable policies, procedures, and regulatory requirements. Findings indicate modest weaknesses that require management's attention. |
| ***Needs Improvement*** | Indicates weaknesses in the system of internal control and/or compliance with related policies, procedures, and regulatory requirements. These findings require management's prompt resolution to prevent further deterioration and possible losses. |
| ***Unsatisfactory*** | Indicates significant weaknesses in the system of internal control and/or compliance with related policies, procedures, and regulatory requirements. Management's immediate attention to these findings is required to prevent potential loss to the institution. |

We would like to thank the management and staff of the District for the assistance and courtesy extended to us during our audit.

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## Summary of Audit Procedures Performed

- Procedure 1-Reviewed the District's Board Policies and Business Office regulations.
- Procedure 2-Reviewed that the District is in compliance with established policies and regulatory requirements.
- Procedure 3-Reviewed and assessed the budget development, preparation, approval, and adoption and implementation process.
- Procedure 4-Reviewed and tested a sample of 23 journal entries in FY 20/21.
- Procedure 5-Reviewed and tested a sample of 23 bank account reconciliations and account reconciliations.
- Procedure 6-Reviewed and tested a sample of 10 cash receipts and deposits in FY20/21.
- Procedure 7-Inquired which buildings and departments have Board approved petty cash funds.
- Procedure 8-Evaluated the adequacy of management oversight to prevent inadequate reserves or excessive idle funds.
- Procedure 9-Reviewed how the District monitors the adequacy of securities pledged.

**Recommendations to Enhance the System Of Internal Controls and Improve Operating Procedures**

## AREA: BUDGETING

### Observation

Internal Audit reviewed and assessed the budget development, preparation, approval, adoption, and implementation process. Specifically, we reviewed the procedures to determine the adequacy of budget administration, the frequency of budget status reports, and the review process of these reports. In addition, we reviewed the budget transfer policy and budget transfer transactions to ensure that budget transfers are appropriately approved, adequately documented and timely reported. We reviewed the general ledger for accurate and timely posting of budget transfers.

### School District Risk and/or Opportunity:

The budget is a key tool for managing day-to-day operations. Errors in the budget, such as making unreasonable or unrealistic assumptions, underestimating expenditures, and overestimating revenues can have significant consequences. Thus, it is critical that a budget is well constructed.

As part of the District's strategic planning and budget development process, the School District produced a forecast of potential budget scenarios based on a variety of different variables. This forecast provides the Board of Education, the administration and the community with the potential impact that increases in health insurance costs, retirement system costs and other substantial budget factors may have on upcoming budget development. The forecasting tool used is consistent with the spreadsheet provided by the NYS Comptroller. Examination of recent budgets demonstrates that the administration and the Board of Education only ask the community to approve budgets which address the needs of the district without surpassing the tax cap. Also, the District's budget development considerations include the decrease in student enrollment. The Budget document prepared by the administration is consistent in format and content from one year to the next making it very easy for the general public to compare one year's budget to the next year's budget.

These procedures are examples of Best Practices.

### Recommendation:

The District has established adequate controls over its budget process.

***No Management's Response Required***

**AREA: FINANCIAL ACCOUNTING & REPORTING AND CASH**

**Observation**

Internal Audit reviewed the policies and procedures over financial accounting and reporting which included Journal entries; bank reconciliations and account reconciliations; management reports; petty cash funds; and collateralization of funds. We tested for proper internal controls as it relates to the duties of accepting cash, processing checks, preparing general ledger entries, and reconciling bank statements. We also looked to ensure proper segregation of duties existed within the Business Office as it relates to Financial Reporting and Cash processes.

Journal Entries

To determine the process for recording journal entries and the nature of automated and manual journal entries Internal Audit randomly selected and tested 23 journal entries. We examined each journal entry for approval and independent review as well as timely posting to the general ledger. All entries were posted timely to the ledger, however during our review we noted that evidence of review and approval on the monthly journal entries was not always consistent with regards to some of the monthly journal entries tested.

Bank Reconciliations and Account Reconciliations

Internal audit judgmentally selected a sample of 23 bank statements and 10 account reconciliations to test. We tested to ensure that the reconciliations have been properly prepared and reviewed by separate individuals. We also tested that the reconciliations were performed timely and that they were free of errors. In addition, we reviewed documentation and verified the origination date of old or unusual items or entries. During our testing, Internal Audit noted that a number of checks issued from years past that were still outstanding.

Cash and Petty Cash Fund

We inquired on which buildings/departments have Board approved petty cash funds to ensure proper documentation, receipts invoices security and access to cash. During our inquiry we discovered that petty cash transactions are minimal.

We also reviewed the controls over the cash receipts and deposits process. We determined that controls over the petty cash fund and cash receipts are adequately documented, and controls are properly in place and operational.

Collateralization of funds

We evaluated the adequacy of management's oversight to prevent inadequate reserves of excessive idle funds and how the district monitors the adequacy of securities pledged to protect those funds. We also noted that there were documented controls in place to ensure that excess funds are invested daily.

**School District Risk and/or Opportunity:**

Unidentified discrepancies or irregularities between subledgers and General Ledger records, along with accounts not being properly reconciled and journal entries not being properly reviewed and approved could lead to a financial statement misstatement.

Best practices in financial accounting dictates establishing proper segregation of duties in the preparation and posting, and the review and approval of journal entry transactions. Proper internal controls dictate that key processes have a preparer and an independent reviewer. In general, an independent review is a detective control that adds to the overall strength of the control environment. The District has adequate segregation of duties in its financial accounting process.

As it relates to the outstanding checks, in accordance with the General Municipal Laws of New York, Article 2 Section 21 - Cancellation of unpaid checks or drafts, checks or drafts of school district which is outstanding for more than one year from the respective issue date, shall be cancelled and the amount thereof returned to the fund which was originally charged. Prior to such cancellation, the bank or banks on which such checks or drafts were drawn shall be notified, by the fiscal officer or other officer having responsibility for issuance of such checks, not to pay the same. A complete and accurate record of all checks and drafts so cancelled should be maintained. The amount of any such check or draft shall be paid without interest in the same manner as any other claim presented for payment within six years from the original date of issuance, from any moneys legally available, to the lawful holder thereof, or in the absence of such check or draft, to the person or entity lawfully entitled to payment upon submission of a voucher and a statement accounting for such absence. For purposes of such payment, the governing body of the municipal corporation, district corporation or school district may establish an appropriation containing moneys sufficient to pay the amounts of any outstanding checks or drafts which may be presented.

**Recommendation:**

The District has established adequate controls over its financial accounting and reporting and cash process except for the journal entry approval process and the stale dated checks outstanding referenced above.

As it relates to journal entry approval, we recommend that the Business Office follow the journal entry review and approval process established by the School District.

As it relates to the cash process and outstanding checks, we recommend that the Business Office develop clear procedures to identify any financial asset that has been unclaimed or abandoned after a period of specified time.

***Management's Response***

Management is pleased that there were no significant exceptions found. Management will consider the recommendation as it relates to journal entry approvals, the District Treasurer will continue to review each journal entry and post to the ledger accounts. The Business Office will

further implement a new procedure of an automated approval process within the accounting software. This will ensure consistency with the approval of the monthly journal entries.

With regards to the recommendation as it relates to establishing clear procedures to identify financial assets that have been unclaimed or abandoned after a period of specific time, the Business Office, in accordance with New York State unclaimed funds guidelines, will continue to appropriately maintain and monitor unclaimed funds. The District Treasurer has documented an internal procedure and will implement that process as it relates to unclaimed or abandoned funds.